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NORTHERN BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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Office of Reports and Estimates
Northern Branch

BRITISH DIVISION

UNITED KINGDOM

1. The US-UK-Canadian economic and financial conference

The UK delegation will probably enter the Washington Conference on 7 September hopeful of early agreement on short-term measures for easing the present situation--that is, reducing the rate of outflow of Britain's dollar and gold reserves and relieving the tense atmosphere in London. Since the variety and complexity of the issues and differences rule out quick agreement except on short term palliatives, Cripps and Bevin can hardly expect more than a start to be made in the short space of the conference toward new, long range plans for economic recovery. The British may look on the forthcoming conference as a starting point for subsequent meetings of the three powers.

The UK, then, may expect small concessions involving increased US purchases of Sterling Area raw materials, greater use of natural rubber, the easing of some tariffs and customs procedures, certain ECA concessions, investment in the Empire under Point-4, and possibly some dollar support for its strategic overseas commitments. The UK will not, however, expect any substantial, direct new grants or loans. For its part, although it will not repudiate the fundamentals of the welfare state, the UK delegation may indicate its preparedness to compromise on their current application. The recent order to Government departments to trim their next year's budgets by 5% appears to be an earnest of this. The delegation may be prepared to discuss devaluation, but the International Monetary Fund is the proper forum for action on this line and, in any event, British action would probably not be unilateral. The British will certainly make the point that their production record is excellent, and that of the COMEC countries only the UK is earning more dollars than in pre-war years. They will assert that the fundamental problem of historic imbalance can not be solved by internal UK action alone. In any event the UK Government can not be expected to propose at this juncture any drastic deflationary measures, considering the impending elections.

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But the UK negotiators will not confine the conference to the technical, financial and economic level; they will raise political and strategic factors. The questions of giving aid and comfort to the USSR, of the burden of overseas commitments, and of the value to the US of an economically strong UK will surely be brought up. In the field of high strategic policy, the UK will certainly consider that it has a powerful bargaining position involving the maintenance of the common Anglo-US opposition to Communist expansion. The British will expect US recognition of their role, and quite possibly material support of it.

2. TUC annual conference

The forthcoming annual conference of Britain's immensely influential Trades Union Congress, the topmost echelon of some 8 million organized workers, will this year devote itself largely to economic issues. It is expected that the conference will overwhelmingly approve the Government's economic program. Although rebellion will be evident on the part of the representatives of a few unions, the Government's wage-freeze policy--no general increases in personal incomes without a corresponding rise in productivity--will be firmly supported. On the other hand the TUC will come down solidly against reducing wages, lengthening hours of work, or cutting social services. The conference, firmly guided by the TUC leaders, will reflect the aim of those leaders to stand both as supporters of the Government's policies and as defenders of the economic status of its rank-and-file members. While these will be the most significant issues of the conference, there will also be discussions of other questions of interest to organized labor, including the efficiency and administration of the nationalized industries and increased workers' representation in their management. Differing positions will be argued and study committees will probably be established, since the unions are not fully satisfied with labor's position in the present set-ups, but the Government's actions in these respects will, by and large, be approved.

An address by Prime Minister Attlee, who is expected to emphasize Britain's grave economic situation, will highlight the conference. Should he suggest that welfare standards or the amenities of the working class may have to be cut, TUC leaders will find it increasingly difficult to restrain discontent and unrest among British labor. Neither the labor nor the political leaders have yet been able to convince the rank-and-file of the absolute need of Britain for greater

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productivity; the rank-and-file remain largely convinced that greater productivity per man leads directly to manpower redundancy--and hence to unemployment.

3. National Coal Board and the NUM Request Modification of the Control of Engagement Order.

Both the National Coal Board and the National Union of Mineworkers have urged the Ministry of Labor to modify the Control of Engagement Order, which prohibits workers in essential industries from changing their jobs, to allow miners to leave their work in the hope that this would raise recruitment figures which have dropped considerably in the first six months of 1949. The NCB and the NUM argue that many men might be induced by high wages to try the work if they were free to give it up. Since many unwilling miners would probably leave their jobs if the Control of Engagement Order were modified, the administrators and the union officials in the industry must feel that the need to encourage additional workers to enter the mining industry is serious enough to warrant taking such a risk.

At the end of June total manpower in the coal mines numbered 721,300 compared with 735,000 in June 1948. The manpower target for 1949 is 735,000, a much less optimistic estimate than the 750,000 target in 1948. The number of coal face workers has increased by 5,000 to 206,000 since June 1948, but is still far short of the 310,000 estimated as the minimum required to attain this year's coal target.

4. Communist Party election platform

The British Communist Party has issued its general election program under the title, "The Socialist Road for Britain," and, according to a Party leader, intends to put forward 100 candidates at the next general election as compared to 21 in 1945. While the Party will probably win few converts in Britain on the strength of its manifesto, it is of interest as an example of the propaganda and overt tactics of the British Communists.

The program is comparatively moderate and reflects no policies with which many left-wing Socialists would disagree. In the economic field, it proposes an all-around increase in wages with wage equality for women and a 40-hour, five-day week, lower prices for household goods, abolishment of the sales tax on all but luxury goods, maintenance or extension,

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if necessary, of the food subsidies, drastic reductions in beer, tobacco, and entertainment taxes, nationalization of nine new areas of private ownership, with reduced scales of compensation to owners and control vested in the workers and technicians, and more attention to trade with Eastern Europe at the expense of the dollar markets. In the political field, the Party calls for the repudiation of "sectional war blocs" (Brussels and North Atlantic Pacts), close co-operation with the USSR, the ending of Partition in Ireland, self-government in domestic affairs for Scotland and Wales, abolition of the House of Lords, proportional representation, a ban on all fascist movements, and no restrictions on working-class demonstrations and political activities.

5. Admiral Vian to command British Home Fleet

The appointment of Admiral Sir Philip L. Vian, age 55, to take command of the British Home Fleet next January is significant in that it places one of Britain's most brilliant and capable naval officers in a post of increasing importance in Western Union and North Atlantic Pact affairs. Admiral Vian has had a distinguished career in the British Navy, among his most memorable wartime exploits being the rescue of 300 British seamen from a German prison ship, and his battles with the Italian Fleet and the Luftwaffe while protecting Malta convoys.

As a result of the success of the combined Western Union naval maneuvers (exercise "Verity") last July, the Dutch and Norwegian navies have indicated their desire to participate in the Home Fleet's autumn maneuvers.

6. Britain's first jet bomber

The Air Staff is concentrating on jet development for Bomber Command, now that Fighter Command is equipped with jet aircraft. The English Electric Company's B3/45, a high altitude, high speed, unarmed light bomber, equipped with two Rolls-Royce Avon turbojet engines and having a bomb capacity of 10,000 lbs., is Britain's first jet bomber and will eventually replace the Mosquito. Called the Canberra, the prototype recently passed successful flight tests and will be shown publicly for the first time in September. The Ministry of Supply has authorized plans for the production of 105 of the tactical day bomber version, designated the B5/47, and it is estimated that the first squadron should be

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equipped in late 1951. The Australians plan to build the B3/45 in quantity, which prompted the use of the name Canberra.

COMMONWEALTH AND EMPIRE

7. Some dollar relief for British Colonies in sight

Harder hit than the UK by the virtual standstill on dollar imports which has been in force since early July, the Colonies, [REDACTED] will probably be allowed to resume dollar spending before the UK. All of the Colonies have now submitted revised import programs calling for less dollar expenditure than before the present temporary restrictions were imposed. Although considered satisfactory in the aggregate, these have not yet been put into effect, and the standstill continues - presumably at Treasury insistence. One explanation for the delay is probably reluctance to step up dollar purchases before the Washington conference.

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Meanwhile, the Colonial Development Corporation, set up to finance commercially profitable industrial and agricultural undertakings in the Colonies, is negotiating a loan from the International Bank of \$10 million for heavy machinery-- a type of import in which the Colonies have been forced to rely largely on US sources of supply. This should tend to decrease colonial withdrawals from the sterling area dollar earning projects. The Corporation plans to set up a special subsidiary company to supervise the purchase and use of necessary transportation and industrial equipment.

Union of South Africa

8. Government wins by-election by narrow margin on Apartheid issue.

The Nationalist Party's 10-vote victory in the 17 August by-election in Johannesburg's Mayfair constituency, after hard campaigning, suggests that the Government continues to hold its gains in once-hostile urban areas, chiefly because of the appeal of its strict racial segregation policy of apartheid, but that Smuts's United Party is showing signs of a comeback. (The Nationalists won Mayfair in the 1943 general

* Especially the West Indian colonies. See NB Weekly No 72, 11 July 1949

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election by 388 votes.) Of the 434-vote increase in balloting over last year, the United Party gained 406 votes to the Nationalist Party's 23. This represents the United Party's best by-election showing since the general election and is explained chiefly by its increased activity in areas where its potential has been large but lately not fully tapped. The United Party's campaign slogan of more "bread and butter" is also likely to attract voters at future elections as the Union's worsening economic prospects and unemployment problem become more critical.

NORTH AMERICAN DIVISION

CANADA

1. Canadian interest in defense

Canadian interest in defense matters has been aroused by events of the past few weeks. The visit of US Defense Secretary Johnson to Ottawa for talks with Canadian officials in connection with the North Atlantic Pact was the subject of favorable and enthusiastic comment throughout Canada. Newspapers pointed out the continued close cooperation of the two countries and renewed the hope that Canada's inadequate armed forces would soon be strengthened. Some significance was attached to the fact that Mr. Johnson was accompanied by members of the Permanent Joint US-Canadian Board of Defense.

Gaining valuable experience which will enable them to work more smoothly with US troops when joint maneuvers are held in northern Canada this winter, units of the Canadian Army and the RCAF have recently completed "Exercise Eagle," a three-day test held along a portion of the Northwest Highway. The results of this maneuver, although stoutly defended by the Department of National Defence as a highly successful test of Canadian airborne units, was not so favorably reported by the many press correspondents who covered the event. They were practically unanimous in characterizing the maneuver as a fiasco of muddled plans and administrative fumbling coupled with a display of inadequate and obsolete equipment. While the press criticism was, to a great extent, valid, valuable lessons were learned, particularly as regards some of the present shortcomings of the Canadian armed forces.

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With the Norwegian national election approaching in October, the Labor Party is threatening to refuse the responsibility for forming a new Government unless it receives a clear mandate and again has an absolute majority in Parliament. But with all indications favoring a Labor Party majority, although possibly not absolute, there seems to be little prospect that it can avoid this responsibility. Labor Party leaders may be forced to seek cooperation to assure themselves a working majority in which case the non-Socialist parties rather than the Communists will be approached.

Combined voting lists by Conservatives and Agrarians; Conservatives, Agrarians and Liberals; and abortive attempts at including the Christian Peoples Party in a four-way combination indicate attempts to "gangup" against the Labor Party. These pre-election efforts to combine lists of candidates are aimed at circumventing the recent legislation banning the practice of combining lists when all votes are in and seats are being allocated to the parties.

SWEDEN2. Sweden's foreign trade position improves

Although Sweden, in common with the other participating countries in OEEC, has not found a solution for its shrinking dollar receipts, its foreign trade position nevertheless has improved to such an extent that its import surplus for the first half of 1949 amounted to only 200 million kronor (3.60 kronor-\$1.00) compared with one billion in 1947 and 750 million in 1948. The small deficit was undoubtedly covered by invisible earnings so that in effect Sweden had a slight favorable balance of payments. Reduction of the import surplus was accomplished despite a 10 percent deterioration in terms of trade owing to a slower decline in import than export prices. Exports increased in relatively the same proportion as the decrease in imports, and although the government looks upon the situation as favorable, it realizes that imports cannot be allowed to drop indefinitely without a serious effect on commodity supply and prices.

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Since submission to OEEC of its original Fiscal 1950 program, when only conditional aid was requested, Sweden now believes that its foreign trade position has changed to such an extent that its surplus with the other participating countries will exceed its Western Hemisphere deficit. This would place Sweden in the same category as Belgium. Although the difference between the European surplus and the Western Hemisphere deficit is expected to be small (and ECA doubts that a surplus will be achieved except with the UK) Sweden is pressing, in principle at least, for the same treatment as Belgium. This in effect would allow Sweden unconditional aid for some fraction of the excess of its European surplus over its Western Hemisphere deficit.

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